September 25, 2008

One constant strain of policy making over the past eight years has been an embrace of the market as the best and most efficient means of controlling production. President Bush has consistently called for less oversight and regulation of the financial sector. Those laws which survived were rarely and poorly enforced by the Executive Branch. Furthermore, the decision by Federal Reserve Chairman Greenspan to set interest rates at historically low levels flooded the markets with cash. With nowhere else to put the money, investment bankers created a series of new and convoluted credit devices. These brought incredible profits to a few, even though no one understood them. With no congressional oversight or government regulation, there was no one to ask where the emperor's clothes were, that is, to ask what these credit default swaps and sub-prime loans were really worth. When the Democrats regained control of Congress in 2007, we began a whole new era of investigation and oversight. Unfortunately, we could not undo all the damage of those years, in the face of the president's intractability, and we are now facing the results.

For years, the Bush Administration has assured the nation that our economy was strong and doing well. As the Republican Party has, for decades, encouraged home-ownership at any cost, President Bush even cited, in his 2007 State of the Economy Report, the increases in ownership rates as proof that the economy was doing well even as real wages stagnated and costs skyrocketed. Now, in the space of barely a week, the same people are insisting that if Congress does not cut the President a blank check for $700 billion - bringing the total bailout package to $1,000,000,000,000 when you include the ~$50 billion for Fannie Mae and Freddie Mac, $85 billion for AIG, and the $29 billion in bad loans taken on from Bear Stearns - and do so immediately, without delay, without conditions or oversight, the sky will fall and the economy will collapse.

It is both natural and absolutely right that the American people and the Congress who represent them are both a bit skeptical. Remember, when the Administration asked Congress to authorize money to bailout the mortgage companies, we were told authorizing it would mean they wouldn't need to use it. It is an understatement to say that President Bush's record of promising how he would use authority is less than stellar. Besides, as House Financial Services Chairman Barney Frank put it, "I don't trust anybody to have the amount of power he asked for in the bill he sent us." That's why Members of Congress from both parties have expressed concerns about the President's proposal and refused to be rushed into anything.

The fact of the matter is, it was lack of proper oversight that got us into this situation in the first place. Nor should the men and women who created the mess be rewarded with golden parachutes. Congress is already investigating the severance packages at Fannie Mae and Freddie Mac, and we must broaden that scope. (Secretary Paulson has expressed concern that such investigations might discourage companies from participating in the plan, but I hope that we would never spend taxpayer dollars on anyone willing to let his business fail rather than take a pay cut.) But just because Wall Street executives' recklessness and President Bush's carelessness caused this mess doesn't mean that we can allow the credit markets to fall. We cannot do what the Republicans were urging a few months back when they voted against the Housing bill and simply "let the market work". The market didn't work, as many of them have recognized, and will never be sufficient without proper safeguards against unmitigated greed, but a complete breakdown will only add to the pain of working families who have met all of their payments and still watched the values of their houses plummet below that of their mortgage. Some serious action is necessary, and Members from both parties are working, together, to produce a solution that is prompt and properly constructed.

It is clear that we cannot afford the costs of inaction. In addition to collapsing home values, a market failure would damage every sector of our economy. Banks, desperate for money, would increase credit card fees and be unable to loan money to anyone, no matter how good your credit. Money for student loans could dry up. Pension funds and 401(K)s, heavily invested in the market, could plummet in value, leaving those who depend on these savings for retirement without the safety net they worked so hard to create. Companies large and small, facing money shortages, would cut salaries and jobs; even those who kept their jobs would face lower wages. Cities and states, their revenues already short from the decreased tax base, would be able to find no one to purchase the municipal bonds that help fund infrastructure construction projects. The services on which we all depend, particularly in economic hard times, would be curtailed and the new infrastructure that could spur so much economic growth would be delayed yet again. We need to act, and we must act swiftly and smartly.

If taxpayer money is going to prop up the economy, we should look at it as an investment, not a giveaway. The funds could be used to purchase equity or be loaned out at interest, for example, and we might even turn a profit. We also need oversight, however, to protect the taxpayers from wasteful or improper spending. We cannot allow a dollar to be wasted bailing out Wall Street while Americans are struggling to put food on their tables or keep a roof over their heads. We also need an economic recovery and jobs package. If we're going to use taxpayer money to help the economy, there's no better way than putting it in the hands of taxpayers. Cleaning up this mess will be hard and it will be painful, and we must learn from this the importance of regulation. Let us remember this, too, however: We survived the Savings & Loan crisis of the first President Bush, and went on to see budget surpluses and intense growth under President Clinton's leadership. We can survive the crisis of the last President Bush, too, and there is hope for a brighter future.